Social Security and the future

- Chronicle staff and Social Security Administration
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Q: What is Social Security?

A: Social Security is a national retirement program created in 1935. It provides retirement and disability benefits as well as money to family members of disabled workers and survivors of workers who have died. About 156 million workers are covered by Social Security, and about 52 million people are now receiving Social Security or Supplemental Security Income benefits.

Q: When can retirees begin to receive benefits?

A: Those retiring at age 62 are eligible for partial benefits, and those retiring at age 65 receive full benefits. By 2027, retirees must be 67 to begin receiving full benefits.

Q: How are Social Security benefits paid for?

A: Social Security is financed by a tax on workers and employers. Workers' wages are taxed 6.2 percent up to $87,900, an amount matched by employers. The money goes into a fund called the Social Security Trust Fund.

Q: How does the Trust Fund work?

A: The Trust Fund collects money from current workers and uses it to pay for current retirees and other beneficiaries. The program is designed to be "pay as you go." The amount collected from current workers pays current benefits. The amount paid into the system in the future from workers will go out to future retirees and other beneficiaries. In 1950, 16 workers were paying into the system for every one beneficiary. Now, the ratio is about 3.3 workers to 1 beneficiary.

Q: What is the current financial situation?

A: The Social Security Trust Fund now collects more in taxes than it needs to pay out in benefits. The excess money goes into special Treasury bonds.

Q: Is there really a surplus?

A: The surplus exists on the books, but when Treasury bonds are purchased, the cash goes into the federal treasury. It then is used to pay for the federal government's costs of everything from the war in Iraq to education grants to national parks.

Q: Is there a future problem?

A: The size and extent of the problem is debatable. However, after 2018 - - in the midst of retirements by the large Baby Boom generation -- the amount of money collected in taxes won't be as great as the amount of money that must be paid in benefits.

Q: What happens then?

A: The Trust Fund begins to cash its bonds, which means the federal government has to pay that obligation rather than using the money to cover the costs of other operations. If nothing changes, that situation is expected to continue until 2042 or 2052 depending on what statistical model is used. At that point, if nothing changes, Social Security will have enough money to pay an estimated three-quarters of the current level of benefits.

Q: What could change?

A: As happened in the late 1980s, Congress can decide to increase payroll taxes to generate more money for the fund or cut benefits, including raising the retirement age for full benefits, to reduce the costs.

Q: What has President Bush proposed?

A: The president has said he wants workers to be allowed to take a portion of the money they now pay into the Trust Fund in payroll taxes and put it into individual retirement accounts that can be invested in stocks, bonds and other securities. The president has not produced a plan with specific details for his idea.

Q: What are the benefits of such a plan?

A: The president argues that individuals should have greater control over their retirement and can do so, as well as earn a greater amount of money for retirement, by investing in stocks and bonds on their own. The money in private accounts would be owned by workers and could not be spent by Congress for other things; workers could build wealth and if they die, bequeath any remaining money to heirs. Private accounts would also "pre-fund" future benefits, reducing future government costs.

Q: What are criticisms of the plan?

A: Critics say such a move fundamentally changes the purpose of Social Security because it would no longer guarantee a certain income level for retirees and would take a huge amount of current money out of the system now, which must be made up. They estimate the government might need to borrow as much as $2 trillion to make up for the payroll taxes that would be lost to individual accounts, money that now helps pay current benefits.

Q: Is Social Security planned to be an individual's only retirement income?

A: The Social Security Administration, which runs the program, says Social Security was planned and remains just part of a person's retirement along with pensions and savings. However, government figures show 1 in 5 recipients with no other income, and 65 percent of recipients depend on Social Security for half or more of their retirement income.